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THE HOLMES GROUP, INC. V. VORNADO AIR  
CIRCULATION SYSTEMS, INC.: THE RETURN OF  
PATENT APPEALS TO THE REGIONAL CIRCUITS

Peter O. Huang\*

I. INTRODUCTION

When Congress created the Federal Circuit in 1982, it gave the new court appellate jurisdiction over patent appeals from district courts around the nation.<sup>1</sup> That jurisdictional grant remained essentially exclusive for twenty years, but the Supreme Court recently opened the door for the return of at least some patent appeals to the regional courts of appeal in *The Holmes Group v. Vornado Air Circulation Systems*.<sup>2</sup>

In *Holmes*, the Court held that the Federal Circuit does not have jurisdiction to decide a case in which the complaint does not state a claim based on patent law, even if the defendants subsequently raise a counterclaim of patent infringement. Jurisdiction for such a case now lies with the regional court of appeal for the district court that originally heard the case. Although it is still too early to tell if patent cases will once again become commonplace in the regional circuits, patent cases have begun to flow from the Federal Circuit back to the regional courts of appeal.

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1. See 28 U.S.C §§ 1295(a)(1), 1338; see also Jay I. Alexander, *Cabining the Doctrine of Equivalents in Festo: A Historical Perspective on the Relationship Between the Doctrine of Equivalents and Prosecution History Estoppel*, 51 Am. U. L. Rev. 553, 592 n. 318 (2002) (citing Federal Courts Improvement Act of 1982, Pub. L. No. 97-154, 96 Stat. 25 (codified as amended in scattered sections of 28 U.S.C.)).

2. 535 U.S. 826 (2002).

These patent cases may pose serious challenges to appellate practitioners who have developed general practices in the regional circuits. Patent cases often involve extremely arcane technology and complex legal issues. They are also often high stakes, “bet the company” cases involving heavy investments in litigation. In order to successfully meet these challenges, general appellate practitioners handling patent appeals should plan to take advantage of existing sources of specialized knowledge in patent law.

## II. THE *HOLMES* CASE

### *A. Background: The District Court and Federal Circuit Litigation*

Vornado Air Circulation Systems and The Holmes Group are competing manufacturers of fans and heaters who have litigated against each other several times.<sup>3</sup> At one point, Holmes filed an action in the United States District Court for the District of Kansas seeking declaratory relief on various trade dress claims.<sup>4</sup> In response, Vornado filed a compulsory counterclaim alleging patent infringement.<sup>5</sup>

The district court granted Holmes’s request for declaratory relief regarding trade dress.<sup>6</sup> It also stayed all proceedings related to Vornado’s patent counterclaim and stated that the patent counterclaim would be dismissed if the declaratory judgment on the trade-dress claims were upheld on appeal.<sup>7</sup>

Vornado appealed to the Federal Circuit.<sup>8</sup> Holmes challenged the Federal Circuit’s jurisdiction over that appeal.<sup>9</sup> The Federal Circuit vacated the district court judgment.<sup>10</sup> The

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3. *See Holmes*, 535 U.S. at 827 (describing parties’ litigation).

4. *Id.* at 828.

5. *Id.*

6. *Id.*

7. *Id.*

8. *Id.* at 829.

9. *Id.*

10. *Id.*

Supreme Court then granted certiorari to consider whether the Federal Circuit had jurisdiction over the appeal.<sup>11</sup>

### *B. The Supreme Court's Decision*

#### *1. Justice Scalia's Opinion for the Majority*

Justice Scalia wrote the opinion of the Court and was joined by Justices Rehnquist, Kennedy, Souter, Thomas and Breyer.<sup>12</sup> He began his analysis with 28 U.S.C. § 1295(a)(1), which states that the Federal Circuit has exclusive jurisdiction over any appeal from a federal district court decision based, “in whole or in part, on [28 U.S.C. § 1338].”<sup>13</sup> Section 1338 provides in turn that “the district courts shall have jurisdiction of any civil action *arising* under any Act of Congress relating to patents.”<sup>14</sup>

Justice Scalia then focused on how to construe the word “arising.” He turned to 28 U.S.C. § 1331, the statute that confers general federal-question jurisdiction on the district courts, for guidance, and determined that section 1331 federal-question jurisdiction and section 1338 patent jurisdiction are both to be construed under the well-pleaded-complaint rule.<sup>15</sup>

Justice Scalia then pointed out that, under the well-pleaded-complaint rule, Federal Circuit jurisdiction depends on whether the “*plaintiff's* well pleaded complaint” establishes “that federal patent law creates the cause of action or that the *plaintiff's* right to relief necessarily depends on resolution of a substantial question of federal patent law.”<sup>16</sup> As it was undisputed that Holmes's complaint did not assert any claim arising under federal patent law, Justice Scalia concluded that the Federal Circuit erred in asserting jurisdiction over the case.<sup>17</sup>

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11. *Id.*

12. *Id.* at 826.

13. *Id.* at 829.

14. *Id.* at 830 (emphasis added).

15. *Id.* (citing *Christianson v. Colt Indus. Operating Corp.*, 486 U.S. 800, 808 (1988)).

16. *Id.* (emphasis added and internal quotation marks omitted).

17. *Id.*

Justice Scalia rejected Vornado's contention that the well-pleaded-complaint rule should be applied to its patent counterclaim as well.<sup>18</sup> He concluded that jurisdiction cannot be based on the defendant's answer,<sup>19</sup> and as counterclaims appear in the defendant's answer, they too cannot serve as the basis for jurisdiction.<sup>20</sup> To hold otherwise, he wrote, would contravene longstanding policy protecting the plaintiff's choice of forum, undermine the independence of state governments by expanding the class of removable cases, and undermine the clarity of the well-pleaded-complaint rule.<sup>21</sup>

Justice Scalia also rejected Vornado's argument that granting the Federal Circuit exclusive jurisdiction over patent counterclaims would help effectuate the special goal of promoting uniformity of patent law.<sup>22</sup> He pointed out that section 1295(a)(1), which grants exclusive jurisdiction over patent claims to the Federal Circuit, does not include the phrase "arising under," and only refers to section 1338, which is governed by the well-pleaded-complaint rule.<sup>23</sup>

The Court vacated the Federal Circuit's judgment and remanded the case with instructions to transfer it to the Tenth Circuit.<sup>24</sup>

## 2. Justice Stevens's Concurrence

Justice Stevens concurred in part and concurred in the judgment.<sup>25</sup> He expressed concern that unscrupulous plaintiffs would attempt to manipulate appellate court jurisdiction by timing amendments to add or drop patent claims.<sup>26</sup> He suggested, however, that such manipulation could be prevented by holding that appellate jurisdiction is not fixed until the notice of appeal is filed.<sup>27</sup>

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18. *Id.* at 830-31.

19. *Id.* at 831.

20. *Id.*

21. *Id.* at 831-32.

22. *Id.* at 832-33.

23. *Id.* at 833.

24. *Id.* at 834.

25. *Id.* at 834-39 (Stevens, J., concurring).

26. *Id.* at 835.

27. *Id.*

Justice Stevens also noted that precedent offered some support for Federal Circuit jurisdiction over cases involving patent claims alleged in compulsory counterclaims.<sup>28</sup> He relied primarily on *Aerojet-General Corporation v. Machine-Tool Works, Oerlikon-Buerhle Ltd.*,<sup>29</sup> in which a unanimous Federal Circuit, sitting en banc, held that a district court can retain jurisdiction over a counterclaim if the complaint is dismissed.<sup>30</sup>

However, he agreed that “a correct interpretation of 1295(a)(1) limits the Federal Circuit’s exclusive jurisdiction to those cases in which the patent claim is alleged in either the original complaint or an amended pleading filed by the plaintiff.”<sup>31</sup> He was persuaded by the majority’s public-policy analysis<sup>32</sup> and believed that the regional courts of appeal could add to the development of patent law.<sup>33</sup>

### 3. Justice Ginsburg’s Concurrence

Justice Ginsburg wrote a concurrence joined by Justice O’Connor.<sup>34</sup> Like Justice Stevens, she noted that *Aerojet-General* supported Federal Circuit jurisdiction over compulsory counterclaims involving patents.<sup>35</sup> She criticized the majority for improperly dwelling on precedent relating to district court authority, and failing to recognize the “unique context at issue” and the congressional goal of promoting patent-law uniformity through Federal Circuit jurisdiction.<sup>36</sup> However, she also pointed out that no patent claim was actually adjudicated by the district court in *Holmes*.<sup>37</sup> For that “sole reason,” she joined the Court’s opinion.<sup>38</sup>

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28. *Id.* at 835-36.

29. *Id.* (citing *Aerojet-General Corp. v. Machine-Tool Works Oerlikon-Buerhle Ltd.*, 895 F.2d 736 (Fed. Cir. 1990)).

30. See also *id.* at 837 n. 1 (discussing the *Aerojet-General* ruling).

31. *Id.* at 836-37.

32. *Id.* at 837.

33. *Id.* at 839.

34. *Id.* (Ginsburg, J., & O’Connor, J., concurring).

35. *Id.*

36. *Id.* at 840.

37. *Id.*

38. *Id.*

### III. THE CHALLENGES OF PATENT APPEALS AND SUGGESTIONS ON HOW TO MEET THEM

#### *A. Appeals in Patent Cases Are Beginning to Spread from the Federal Circuit Back to the Regional Courts of Appeals*

It is too early to tell if appeals involving patent counterclaims will become common in the courts of appeal outside of the Federal Circuit. However, there are signs that such cases are beginning to flow away from the Federal Circuit to the regional circuits. In the six months after the Supreme Court instructed the Federal Circuit to transfer *Holmes* to the Tenth Circuit, the Federal Circuit declined to exercise jurisdiction over three patent counterclaim appeals and explicitly transferred two back to other regional courts of appeal.<sup>39</sup> These transfers may be harbingers of more cases to come. If in fact they signal a new trend, appellate practitioners around the country should begin to prepare themselves to handle patent cases on appeal.

#### *B. Appeals in Patent Cases Will Pose Challenges to Appellate Practitioners in the Regional Courts of Appeal*

Appeals in patent cases are difficult to litigate for a number of reasons. One major challenge is the complex science and high technology that are usually involved. As a commentator has noted, one “can hardly find a similarly complex counterpart in other areas of law due to [patent litigation’s] inseparable link to technology.”<sup>40</sup>

Another reason patent cases are very challenging is that they often are high-pressure, “bet the company” cases.<sup>41</sup> Patent

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39. See *Mattel, Inc. v. Lehman*, 49 Fed. Appx. 889, 890 (Fed. Cir. 2002) (citing *Holmes* and dismissing appeal); *Telcomm Tech. Servs., Inc. v. Siemens Rom Commun., Inc.*, 295 F.3d 1249, 1251 (Fed. Cir. 2002) (citing *Holmes* and transferring case to Eleventh Circuit); *Medigene v. Loyola U.*, 41 Fed. Appx. 450, 450 (Fed. Cir. 2002) (citing *Holmes* and transferring case to Seventh Circuit).

40. Joseph Straus, *International and Comparative Law Issues: Patent Litigation in Europe—A Glimmer of Hope? Present Status and Future Perspectives*, 2 Wash. U. J.L. & Policy 403, 425-26 (2000).

41. William Krause, *Sweeping the E-Commerce Patent Minefield: The Need for a Workable Business Method Exception*, 24 Seattle U. L. Rev. 79, 97 n. 131 (2000) (citing

litigants can expect to invest at least half a million dollars, and perhaps ten or twelve times that amount, just in taking a patent case through trial.<sup>42</sup> The expenses associated with an appeal only add to this already high total.

In addition, “[p]atent cases have produced some of the largest damages awards in history”<sup>43</sup> and patent plaintiffs are even potentially eligible for treble damages under certain circumstances.<sup>44</sup> A plaintiff can also obtain permanent injunctions that can shut down the production of infringing products and cause devastating injury to a defendant.<sup>45</sup> The stakes, in short, are high.

Patent cases can also involve particularly complex issues of law and procedure. After all, the Federal Circuit was created in 1982 in large part “to promote doctrinal stability and to reduce the widespread lack of uniformity and uncertainty of legal doctrine [relating to patent cases in the regional circuits].”<sup>46</sup> As one commentator has noted:

The Senate Report accompanying the Federal Courts Improvement Act of 1982 promised that the Court of Appeals for the Federal Circuit would have a “rich docket,” composed of “unusually complex and technical” cases. Since then, the richness and complexity of the court’s docket has grown as the court has applied the patent laws to increasingly sophisticated technologies.<sup>47</sup>

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James Pooley & Colleen Pouliot, *Defensive Strategies in Software Litigation*, 17 ACCA Docket 34, 37 (1999)).

42. See Chad S. C. Stover, Student Author, *Deciphering Means-Plus-Function Claim Limitation Infringement under § 112, Paragraph 6: Finding Certainty in the Uncertain Case Law*, 3 N.C. J.L. & Tech. 101, 114 n. 59 (2001) (citing Anat Hakim, et al., *Western District of Wisconsin Proves a Speedy and Affordable Venue for Patent Litigation*, Intell. Prop. Today 34 (October 2001)).

43. Steven C. Carlson, Student Author, *Patent Pools and the Antitrust Dilemma*, 16 Yale J. Reg. 359, 380 n. 159 (1999) (citing *Kodak Settles with Polaroid*, 140 N.Y. Times D8 (July 15, 1991), and noting that “Kodak, for example, paid \$925 million in damages to Polaroid in settlement fees”).

44. See 35 U.S.C. § 284 (authorizing treble damages).

45. See 35 U.S.C. § 283 (authorizing injunctive relief).

46. Alexander, *supra* n. 1, at 592 n. 319 (citing *Panduit Corp. v. All St. Plastic Mfg. Co., Inc.*, 744 F.2d 1564, 1573-74 (Fed. Cir. 1984)).

47. Joseph Ferraro, *Area Summaries: 2001 Patent Law Decisions of the Federal Circuit*, 51 Am. U. L. Rev. 639, 640 (2002) (citations omitted).



*C. Well-Prepared Appellate Practitioners Will Be Ready to Meet Those Challenges*

Appellate practitioners who wish to take on the challenges of patent appeals will need to consult sources of specialized patent knowledge in order to succeed. Fortunately, appellate generalists have access to many helpful resources. Scholarly works provide excellent coverage of the substantive and procedural law in this practice area.<sup>48</sup> Appellate practitioners may also want to consult with or associate lawyers who have already honed their patent appellate skills at the Federal Circuit.<sup>49</sup> Alternatively, general appellate practitioners may consider getting assistance in navigating the complex technology and case law from firms with patent expertise at the pre-trial and trial level.<sup>50</sup>

#### IV. CONCLUSION

In the aftermath of the *Holmes* case, patent litigation may become a significant part of the appellate landscape around the country. If so, these complex, high-stakes cases will undoubtedly pose great challenges to general appellate practitioners. However, it is this author's belief that those who seek out the sources of specialized patent knowledge readily available to them can meet the challenges these cases will pose.



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48. See e.g. Donald S. Chisum, *Chisum on Patents* (Matthew Bender 2002); Robert L. Harmon, *Patents and the Federal Circuit* (5th ed., Bureau of Natl. Affairs, Inc. 2001).

49. See e.g. Victoria Slind-Flor, *Standouts: Here Are Some of the Leading Practitioners in the Federal Circuit*, Natl. L.J. B10 (April 30, 2001).

50. See e.g. Michael Ravnitzky & Mark Voorhees, *Frequent Filers: The Firms that Brought and Defended the Most Patent Cases in 2001*, 24 Am. Law. 71-72 (June 2002).